

Special Pay Plan Eliminates Deductions from Termination Pay

TERMINATING SDRS MEMBERS could find more money in their pockets after the Special Pay Plan is launched on July 1, 2004. Termination pay will no longer be defined as compensation. When deposited into a Special Pay Plan account, termination pay will be exempt from Social Security taxes. Because the plan is set up as a retirement account, members could realize additional savings if they choose to defer withdrawals until they are in a lower tax bracket.

Rules Apply

There are a few restrictions to participation in the Special Pay Plan.

- ▶ A member's employer must be enrolled in the program.
- ▶ Only members 55 years or older who are terminating

employment are eligible for the plan.

- ▶ Members must receive at least \$2,000 in termination pay to qualify for an account.
- ▶ As a tax-deferred retirement account, there is a maximum deposit allowed – either \$41,000 or 100 percent of compensation, whichever is less. Termination pay in excess of the maximum deposit and up to \$16,000 could be placed into a Special Retirement Plan (SRP) account to provide further tax-deferred savings.

Redefining Termination Pay

The Special Pay Plan was established along with legislation that

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Termination pay will no longer be defined as compensation. When deposited into a Special Pay Plan account, termination pay will be exempt from Social Security taxes.

Termination pay of \$2,000 or more will be deposited into Special Pay Plan accounts for all members 55 years of age or older and whose employers enroll in the program.



Special Pay Plan Eliminates Deductions from Termination Pay ... continued

changed the definition of termination pay. No longer considered a part of final compensation, termination pay includes all lump-sum payments received when a member leaves employment, including

- » compensation for unused vacation
- » compensation for unused sick leave
- » retirement incentives
- » contract buy-outs

Subject to the restrictions above, termination pay will be deposited into Special Pay Plan

accounts for all members whose employers enroll in the program. Members whose employers do not enroll will continue to receive direct payments for termination pay with Social Security taxes deducted. However, since employers will also realize savings, they have a strong incentive to enroll. Like members, their contributions to SDRS and their Social Security taxes on termination pay will be eliminated. To simplify employer enrollment, SDRS has sent out information and forms directly to all employers.

As with any new program, authorized agents are likely to have questions about how the Special Pay Plan works. Help is always available by calling the SDRS office. Also, agent trainings scheduled for October in Rapid City and December in Pierre will discuss the plan thoroughly, with experts on hand to answer all questions. [UpDate](#)

Reminder

June contributions are due by July 15th. SDRS units making late contributions are penalized.

The Face Behind the Voice

Diane Kafka: Exact to the Penny

A PENNY EXTRA or a penny short can keep Diane Kafka at her desk past the five o'clock whistle. As the senior accountant in accounts receivable, Diane balances contribution reports with remittances on a daily basis. If records are off by even a single cent, Diane tracks down the problem and rectifies the error. For a system with thousands of member accounts and millions of dollars in annual deposits, her

task is complex and demanding.

"We handle almost all remittances – employer and employee contributions, optional spouse coverage, purchased service, and trustee-to-trustee transfers," Diane says. "Every single deposit every day must be reconciled with its report. Without the accurate

final pay also causes frequent confusion, Diane says. "If an agent has a question about anything, the best course of action is to call and ask. We're here to help."

Over the nine years that Diane has worked for SDRS she has built a relationship with a number of authorized agents.

"Good communication with agents is the best tool we have for keeping accounts receivable working smoothly."



Diane Kafka

work of authorized agents, it would be an impossible task."

Diane cites some problems that recur regularly. "The most common problem is forgetting to send in a contribution. Often it's for an additional premium – for the optional spouse benefit, or for purchased service. Sometimes agents deduct \$6 instead of 6 percent for new members."

Understanding what constitutes

"Helping them to perform their job error-free is the part of my own job that I like the best," says Diane. "We in the office learn from the authorized agents; they are the ones out there confronting the real problems of members. Good communication with agents is the best tool we have for keeping accounts receivable working smoothly." [UpDate](#)

Compensation Over \$205,000 Subject to Maximum Earnings Limits

Q What does the term "maximum earnings limits" refer to?

A "Maximum earnings limits" is a feature of federal law. It limits the amount of compensation on which contributions to a retirement system can be made. Currently, if members enrolled in SDRS after June 30, 1996, they only make contributions on the first \$205,000 of annual compensation.

Q Do these limits affect a member's benefit calculation?

A Benefits are based on the amount of compensation on which contributions are made. Earnings over \$205,000 are not subject to contributions and, consequently, are not used to calculate benefits.

Q Are members who enrolled before July 1, 1996, affected by this law?

A No. The limits only apply to members who enrolled in a retirement system on or after July 1, 1996, and earn over \$205,000 annually. Employees hired before that date pay contributions on their entire salary,

even on the amount in excess of \$205,000. Although their benefit is based on their entire salary, the benefit's maximum dollar amount is capped by other IRS regulations.



Legislative Changes Effective July 1st

BEGINNING JULY 1, 2004, authorized agents will need to change some of their administrative and reporting procedures to comply with newly passed legislation. These changes fall into three broad categories: contribution reports, benefit calculations and eligibility requirements.

Contribution Reports

Contribution reports and dollar amounts will change for

- ▶ **Purchased Credited Service:** for contracts signed after June 30, 2004, rates vary according to a member's age.
- ▶ **Optional Spouse Benefits:** rates increase for all partici-

pants by 4 tenths of 1 percent, to 1.2 percent of compensation.

- ▶ **Termination pay:** termination pay is exempt from SDRS contributions. When deposited into the Special Pay Plan account, it is also exempt from Social Security taxes.

Benefit Calculations

New laws affect the calculation of benefits by revising

- ▶ **Final average compensation caps:** compensation can only increase in the last quarter of employment to a maximum of 115 percent of the highest prior quarter. The average

pay in the last four quarters of employment is limited to 110 percent of the highest prior quarter. On July 1, 2005, both caps will be reduced to 105 percent.

- ▶ **Termination pay:** no longer considered compensation, termination pay is excluded from final average salary.
- ▶ **Optional Spouse Benefit:** the compensation basis for calculating benefits changes from a member's highest single year's pay to a member's final average compensation.
- ▶ **Retire/Rehire** (for members rehired under the new legislation):

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Legislative Changes Effective July 1st ... continued

—**COLA:** the annual cost-of-living adjustment (COLA) of 3.1 percent will not be paid on a member's retirement benefit while the member is re-employed by an SDRS employer.

—**Add-on benefit:** when members retire for the second time, the add-on retirement benefit will be based on the period of re-employment only.

► **Compensation basis for**

disability and survivor benefits: final average compensation is used instead of the highest one-year's pay in the last three years.

Eligibility Requirements

New laws affect eligibility by

- stipulating that only contributory service counts toward vesting. Purchased credited service contracted

after June 30, 2004, will no longer qualify for vesting.

► enrolling retired/rehired employees as new SDRS members, which means they must work an additional three years to vest for an additional benefit.

For a fuller discussion of retirement legislation passed in 2004, refer to Outlook 1, 2004, or go to the SDRS Web site, www.state.sd.us/sdrs. **UpDate**

SDRS STATE-WIDE INDIVIDUAL COUNSELING SCHEDULE

SCHEDULE DATE	CITY	COUNTY	LOCATION	ADDRESS	DEADLINE TO SCHEDULE*
July 6, 2004	Flandreau	Moody	County Courthouse	101 E. Pipestone Ave.	July 1
July 13, 2004	Lemmon	Corson, Perkins	Community First	214 Main Ave.	July 8
July 20, 2004	Sisseton	Roberts	Dakotah Bank	321 E. Veteran Ave.	July 15
July 27, 2004	Vermillion	Clay	Heritage Room USD Campus	Wagner Alumni Center	July 22
August 3-4, 2004	Sioux Falls (schools)	Minnehaha	Ramkota	2400 N. Louise	July 29
August 10-11, 2004	Rapid City (schools)	Pennington	Holiday Inn	505 N. 5th St.	August 5
August 17, 2004	Clark	Clark	Community Room	111 W. 1st	August 12
August 24, 2004	Huron	Beadle, Sanborn	Crossroads	100 4th St.	August 19
August 31, 2004	Elk Point	Union	Community Room	209 E. Main	August 26
September 7, 2004	Redfield	Spink	Senior Center	728 Main St.	September 2
September 14, 2004	Eagle Butte	Dewey, Ziebach	TBA	TBA	September 9
September 21, 2004	Clear Lake	Deuel	Lakewood Inn	920 3rd Ave S.	September 16

* Individual retirement counseling sessions must be scheduled before noon on this date.

Authorized Agent Training Meetings

SDRS STAFF MEMBERS will join retirement planners to present training sessions for authorized agents. Designed

to help experienced agents as well as newly appointed ones, the sessions will include an overview of the system,

legislative changes, updates to SDRS forms and publications, and a question-and-answer period. **UpDate**

AUTHORIZED AGENT TRAINING SCHEDULE

SCHEDULE DATE/TIME	CITY	COUNTIES INCLUDED	LOCATION/ADDRESS
October 28, 2004 9:00 AM - 11:45 AM	Rapid City	Pennington, Custer, Fall River, Shannon, Bennett, Jackson, Haakon, Ziebach, Meade, Lawrence, Butte, Harding, Perkins	Holiday Inn 505 N. 5th St.
December 1, 2004 9:00 AM - 11:45 AM	Pierre	Hughes, Sully, Stanley, Jones, Lyman, Mellette, Todd, Tripp, Gregory, Buffalo, Jerauld, Hyde, Hand, Potter, Dewey, Corson, Brule, McPherson, Edmunds, Walworth, Campbell, Faulk	Ramkota 920 W. Sioux